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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 6132
RUEATRS/DEPT OF TREASURY WASHDC
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RUEHBK/AMEMBASSY BANGKOK 3777
RUEHBJ/AMEMBASSY BEIJING 7057
RUEHUL/AMEMBASSY SEOUL 8788
RUEHGP/AMEMBASSY SINGAPORE 6955
RUEHKO/AMEMBASSY TOKYO 8945
RUEHML/AMEMBASSY MANILA 0113
RUEHJA/AMEMBASSY JAKARTA 4109
RUEHKL/AMEMBASSY KUALA LUMPUR 3789
RUEHHI/AMEMBASSY HANOI 3360
RUEHBY/AMEMBASSY CANBERRA 4570
RUEHWL/AMEMBASSY WELLINGTON 1845
RUEHHK/AMCONSUL HONG KONG 8304
RUEHGH/AMCONSUL SHANGHAI 1248
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USDOC FOR 3132/USFCS/OIO/EAP
TREASURY FOR OASIA/TTYANG
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GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA
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SUBJECT: Legislation of Taiwan's Social Security System

SUMMARY

11. In July, Taiwan completed the last piece of legislation for its social security system. With the legislation, all Taiwan residents will be covered by one of the social welfare-oriented pension programs. The annual cost of the legislation is estimated at NT\$100 billion (US\$3 billion). With other welfare programs for elderly people to be phased out, the new national annuity system is expected to reduce the financial burden on taxpayers and Taiwan authorities in the future. END SUMMARY.

National Annuity Law

12. In July, the Legislative Yuan (LY) completed the third and final reading of the National Annuity Law (NAL), which will be effective on October 1, 2008. The new law is designed to protect 3.53 million Taiwan residents not yet covered by other insurance and social welfare programs, including 2.8 million jobless women, primarily housewives.

Consolidation

13. Currently, social insurance is available under military servicemen, civil service employee, farmer, and labor insurance programs. Under existing social welfare programs, monthly pensions are NT\$6,000 (US\$182) for every farmer aged above 65, NT\$4,000 (US\$121) for every disabled resident, NT\$3,000 (US\$91) for every poor non-farm people aged above 65, and NT\$3,000 for every aboriginal aged above 55. All of the social insurance and social welfare programs will be consolidated into a single national annuity system in the future, according to the July 2007 legislation.

Coverage

¶4. The July 2007 legislation requires Taiwan residents aged between 25 - 65 and not yet covered by existing programs to participate in the national annuity system. In other words, the NAL is designed to cover the 3.53 million Taiwan residents not already included in existing programs, including 2.8 million jobless women, primarily housewives.

Premium

¶5. The monthly premium will be NT\$1,123 (US\$34) or 6.5% of the monthly minimum wage (NT\$17,280). The government will pay 40% of the monthly premium, and insured residents will pay the remaining 60% or NT\$674 (US\$20). The government will subsidize the poor and disabled. The monthly premium will increase by 0.5 percentage points every two years until it reaches 12% of the minimum wage.

Pension

¶6. Under the national annuity system, insured people aged over 65 are entitled to a minimum monthly pension of NT\$3,000 (US\$91). The maximum monthly pension will be NT\$8,986 (US\$272) if the length of insurance exceeds 40 years.

¶7. The monthly pension will be available for disabled residents with no job capacity regardless of whether or not the recipient has reached the age of 65. Their minimum monthly pension will be NT\$4,000 (US\$121), and their maximum monthly pension will be

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NT\$8,986. The family of an insured person will be entitled to a payment of NT\$86,400 (US\$2,618) for the death of an insured person.

Financing

¶8. According to the Ministry of the Interior, the annual funding requirement for the national annuity system is estimated at NT\$100 billion (US\$30 billion) for the first 15 years, and over 60% of the cost will be financed with the funds for existing social welfare programs. The gap will be filled by lottery profits and premium revenue.

Expectations

¶9. Both government officials and social welfare groups are happy that the NAL will help protect those in Taiwan who are jobless or disabled. Vice Chairman Thomas Yeh of the Council for Economic Planning and Development (CEPD) said that the NAL's pension will provide basic subsistence for all of Taiwan's elderly.

COMMENT

¶10. Although the annual cost will reach NT\$100 billion, the new national annuity system will prevent politicians from using specific social welfare programs to woo voters during elections. Under the new program, farmers under 65 will get a monthly annuity, while those over 65 are eligible for a NT\$6,000 monthly payment, but no annuity. Several other welfare programs for elderly residents will be merged into the national annuity system, and will, therefore, reduce the burden on taxpayers and the government in future.

YOUNG